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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [EINV](#) [ETRD](#) [EGOV](#) [EAIDRW](#) [RW](#)
SUBJECT: IMPACT OF RISING FOOD/AGRICULTURAL COMMODITY
PRICES IN RWANDA

REF: A. STATE 39410
[1](#)B. 07 KIGALI 1146
[1](#)C. 07 KIGALI 1005

[1](#)1. (U) Summary: For the majority of Rwandans who live in rural areas, good rains and harvests in 2007/2008 have kept prices for many staple crops at, or below, last year's prices. Urban Rwandans have not fared as well and are suffering from significant price increases -- in some cases up to 100 percent -- for imported agricultural commodities such as cooking oil, sugar, beans, rice and wheat. These increases have prompted the Rwandan government (GOR) to point fingers at wholesalers hoarding stocks and threaten price ceilings on key food commodities. What the GOR really needs is to accelerate the modernization of the agricultural sector, improve food stock storage facilities to reduce post-harvest losses and invest in meteorological forecasting and agricultural commodity market information systems. End summary.

Overview of Food and Agricultural Prices, Supply and Demand

[1](#)2. (U) Good rains and harvests in 2007/2008 have benefited Rwandan subsistence farmers producing staple crops such as sorghum, cassava, maize, banana, potato and sweet potato. In the 12-month period from April 2007 - March 2008, prices for these products in most cases declined when compared to prices for the similar period in 2006-2007. This is good news for 85 percent of the population who rely on these crops for their basic food needs. Less encouragingly, prices for beans and peas, used as a basic protein source for this population, have risen substantially -- over 40 percent compared to last year. Much of this increase is due to the increase in the cost of beans being imported from the Democratic Republic of Congo (DRC) (ref B) where political instability has disrupted supplies and higher fuel prices (50 percent increase in the last semester) have increased transportation costs.

[1](#)3. (U) Similarly, prices for other imported foods such as wheat, rice, cooking oil and sugar have increased dramatically compared to last year. Cooking oil and sugar

have increased by over 100 percent, while wheat and rice have increased 16 and 40 percent respectively. Landlocked Rwanda already pays a high premium for imported goods transported by road from Kenya and Uganda, or Tanzania. By some estimates it costs as much to ship a bag of flour from Mombassa to Kigali as it does to ship the same bag from the United States to Mombassa. Even if international prices for agricultural commodities were stable, rising fuel costs would force an increase in the street price of imported food to Kigali. Local wholesalers and traders have limited storage capacity and have little choice but to pass increased costs on to Rwandan consumers.

¶4. (U) 5. (U) Rwanda's domestic agricultural production consists largely of subsistence farming on plots of less than 1 acre. Soil erosion, costly fertilizers, limited irrigation and water management systems, and weak crop storage capacity leaves Rwanda with low agricultural productivity and extreme sensitivity to weather fluctuations. A bumper crop today barely feeds the population, while a poor crop tomorrow could have a devastating impact on available food supplies. With prices of agricultural commodities at record levels, Rwanda would be hard-pressed to compensate for a poor harvest by importing its food needs.

¶5. (U) Many imported food products are staples for urbanized Rwandans thus price increases for such commodities have an immediate impact on the 15 percent of the population who live in cities. Urban Rwandans are already suffering disproportionately from rising fuel costs, rents and school fees (ref B). While urban Rwandans for now represent a minority of the population, it is a fast growing segment of the Rwandan polity and potentially the most politically active. In the short term, the upper crust will grumble and

poorer city dwellers will likely substitute their consumption of imported foods for locally grown products. In the medium and long term, the uncertain availability of local produce due to weather conditions, leaves Rwanda vulnerable to food shortages and associated social unrest.

Impact on Domestic Politics, Economy and Environment

¶6. (U) The GOR has been quick to point fingers at agricultural wholesalers who they accuse of hoarding stocks and engaging in "exploitative practices", and has threatened price-ceilings on key foodstuffs. The Senate has also publicly "summoned" the Minister of Commerce to explain the "soaring food prices." The Minister of Commerce, Monique Nsanzabagnwa admitted to reporters the demand for cereals in the country is greater than the supply in spite of increased local production. She blamed the food price increases on rising international agricultural commodity prices, higher transportation costs, the declining dollar and food shortages in neighboring countries such as Uganda and Kenya. Nsanzabagnwa noted the Ministry of Agriculture through the Integrated Development Program hopes to improve production and supply of local agricultural products, encourage farmers to improve storage capacity for grains, eliminate monopolies in the distribution chain and establish a market information system to integrate price information from regional markets.

¶7. (SBU) Informally, Econoff heard from several sources including a consultant at the Ministry of Agricultural that the GOR is extremely concerned about food shortages and is looking for quick fix solutions. This source predicted if the situation did not improve there could be serious social unrest before the end of the year.

¶8. (U) Rising food prices have contributed to rising inflation rates across the country. According to the National Institute of Statistics of Rwanda, the national annual inflation rate has increased from 9.1 percent in December 2007 to an estimated 10.3 percent in February. Inflationary pressures will only increase as imported food

stocks are depleted and replaced at higher cost, and fuel costs continue to rise. As reported in reftel B, the impact of inflation on most Rwandans is more profound than indicated by the national statistics. The vast majority of Rwandans live on less than \$1 per day and can ill afford rising costs for basic necessities.

Host Government Policies and Post Programs

¶9. (U) The GOR recognizes the need to modernize its agricultural sector and is struggling to implement land reform programs that would allow for more efficient farming techniques. Densely populated rural communities, with most available farmland splintered into tiny plots with no land titles, make this a daunting challenge. With the aid of the international donor community, the GOR has also been encouraging better land management including investment in terracing, irrigation, use of fertilizers and the introduction of value added crops. Progress has been slow. While some sectors (such as high value coffee) have shown solid gains, for the most part agricultural production continues to be inefficient, highly dependent on weather and vulnerable to soil erosion and depletion. Crop storage facilities are inadequate and market distribution weak.

¶10. (U) USG agricultural development assistance programs have focused on value added crops such as high quality specialty coffee. This assistance has been successful but limited in scope. As a percent of the total country USAID budget, agricultural development assistance currently represents about eight percent of total expenditures. USAID also manages a Title II food aid program averaging \$10 million annually. However, this program is scheduled to be terminated in 2009. Rwanda desperately needs more

agricultural development assistance to avoid food shortages with potentially destabilizing political consequences. To improve agricultural yields, the GOR needs targeted assistance in implementing irrigation, terracing and land conservation programs. Assistance in developing effective crop storage facilities are needed to mitigate the impact of poor harvests. Current estimates indicate that post-harvest losses for most food crops exceed 20 percent. Improving market information systems would provide for more efficient pricing and distribution between regional markets. Developing Meteorological forecasting capacity would assist Rwanda to more accurately predict weather conditions, manage water resources and take early action against flood and drought conditions.

How Can We Help ?

¶11. (SBU) Comment: Most observers believe that the ethnic tensions that led to the 1994 genocide have not yet abated, despite an official ideology of political reconciliation. While the GOR is firmly in control, it recognizes that rapid economic development and an improved quality of life across the socio-economic spectrum is an essential balm needed to achieve national unity. Until now the GOR has largely delivered on its promises for better economic conditions. However, inflation and rising food prices are hurting the average Rwandan and could threaten reconciliation efforts. The USG can help by investing more resources in agricultural development. Such investment will have multiplier effects across the Rwandan economy, support political stability and ethnic reconciliation and provide trade opportunities for American companies. Post supports this investment and recommends increasing the amount of USAID funding allocated to agricultural development from 8 to 30 percent of total assistance or \$40 million annually. End comment.

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